



**Date:** June 20, 2023

**To:** Wanda S. Page, City Manager  
**Through:** Keith Chadwell, Deputy City Manager  
**From:** Reginald J. Johnson, Director, Community Development Department  
**Subject:** American Rescue Plan Act (ARPA) Funds - Mosaic Development Group, Inc., Loan Commitment – 902 Briggs Avenue Project

**Executive Summary**

In December of 2021, the City of Durham issued a Request for Proposal (RFP) to fund affordable housing developments under the Forever Home, Durham program. Forever Home, Durham is a \$160 million program to create an affordable, livable, inclusive community for low-income residents. As a result of the RFP, the City received nine responses, with funding available to provide gap financing for four of the highest ranked projects. Of the remaining five proposals, four were ranked five through eight, with the ninth proposal being identified as not meeting the minimum threshold requirements in the RFP for review.

In February of 2023, Community Development staff was informed of the availability of the City of Durham’s and Durham County’s American Rescue Plan Act (ARPA) funding under the State and Local Fiscal Recover Funds (SLFRF) section, with affordable housing development now defined as eligible criteria. As a result of the funding availability for affordable housing, the Community Development department requested updated information from the remaining four proposals that were not funded as part of the December 2021 RFP.

In June of 2023, the City of Durham and Durham County entered into an Interlocal Agreement (ILA) to fund Affordable Housing projects using ARPA/SLFRF funds. The ILA empowers the City to execute all loan documents and agreements relating to the ARPA/SLFRF funds on behalf of the City and County.

One of the remaining four proposals, from Mosaic Development Group, Inc., The Briggs Ave project, proposed by Mosaic Development Group, Inc., in partnership with Banc of America CDC and Durham Tech Properties, aims to address the housing needs of the Durham community by constructing 124 affordable apartments at 902 S. Briggs Avenue. The targeted income range for these apartments is between 30% and 60% of the area median income. The total development cost for the project is estimated at over \$32.5M, with funding from various sources, including low-income housing tax credit equity, permanent debt, a deferred developer fee, and a philanthropic contribution from Durham Tech.

The Community Development Department recommends the approval of the funding request of local gap funding, with an increase of \$587,880 from the original request, bringing the total amount to \$5,987,880.

The project team is prepared to execute the project efficiently, with funds committed by December 2024 expected to be expended before December 31, 2026.

## Motion

To authorize the City Manager to issue a conditional binding commitment of permanent financing in an amount up to \$5,987,880 from the City of Durham's and Durham County's American Rescue Plan Act funding under the State and Local Fiscal Recovery Funds to Mosaic Development Group, Inc., as the managing member and lead developer, or its designated affiliate approved by the City, for the development of 124 affordable rental units at 902 S. Briggs Avenue for the Briggs Ave project;

To authorize the City Manager to execute all necessary documents and instruments required to fulfill the purpose and intent of this conditional binding commitment of permanent financing; and

To authorize the City Manager to make necessary and appropriate changes to the conditional binding commitment of permanent financing, provided that such changes do not increase the financial obligations of the City and, taken as a whole, remain favorable to the City's interests.

## Background

The City of Durham launched the Forever Home, Durham program in December 2021, a comprehensive initiative aimed at addressing the affordable housing needs of low-income residents. As part of the program, the City issued a Request for Proposal (RFP) to fund affordable housing developments. Through a rigorous evaluation process, the City received nine proposals and identified four projects eligible for gap financing.

One of the remaining proposals is the Briggs Ave project, presented by Mosaic Development Group, Inc. in partnership with Banc of America CDC and Durham Tech Properties. The Briggs Ave project aims to contribute significantly to the City's affordable housing goals by constructing 124 apartments at 902 S. Briggs Avenue. These apartments will be targeted toward households earning between 30% and 60% of the area median income, ensuring that the development serves those most in need within the community.

Extensive community engagement efforts have been undertaken to gather valuable feedback and insights for the project. A Steering Committee, consisting of students, community leaders, and development partners, actively solicited input from 150 individuals, including students, neighbors, employees, and other community members. This collaborative approach has ensured that the design, amenities, and priorities of the project align with the needs and aspirations of both prospective residents and the surrounding community.

The table below provides an overview of the unit types proposed for the Briggs Ave project:

Table 3: Number and Type of Units

Unit Size	Total Units	<30% AMI	31-50% AMI	51-60% AMI	61-80% AMI	>80% AMI
Studio	-	-	-	-	-	-
One Bedroom	24	5	-	19	-	-
Two Bedroom	68	15	-	53	-	-
Three Bedroom	32	7	-	25	-	-
4+ Bedroom	-	-	-	-	-	-
<b>Total</b>	<b>124</b>	<b>27</b>	-	<b>97</b>	-	-

While the initial funding allocation for affordable housing projects was limited, new opportunities have arisen with the availability of American Rescue Plan Act (ARPA) funding under the State and Local Fiscal Recover Funds (SLFRF) section. The potential to leverage this funding source was recognized and CDD requested updated information from the remaining proposals that were not initially funded.

The Briggs Ave project has demonstrated its commitment to serving the community and achieving the deepest income targeting possible. The funding plan for the project includes a combination of sources, such as low-income housing tax credit equity, permanent debt, a deferred developer fee, and a philanthropic contribution from Durham Tech. The total development cost is estimated at over \$32.5 million, and the project team has worked diligently to secure additional financing and mitigate the impact of rising construction and financing costs.

Given the project's alignment with the Forever Home, Durham program's objectives, the targeted income range, and the strong community engagement efforts, recommending a commitment of funding for the Briggs Ave project is an opportunity to make significant progress in addressing the affordable housing needs of Durham residents.

### **Issues and Analysis**

The Briggs Ave project presented by Mosaic Development Group, Inc. raises several important issues and merits careful analysis. The following points highlight key considerations for the City Council in determining whether to commit funding to this project:

- Affordable Housing Demand: The City of Durham faces a significant shortage of affordable housing options for low-income residents. The Briggs Ave project addresses this pressing need by offering 124 apartments targeted at households earning between 30% and 60% of the area median income. This income range aligns with the income levels of many individuals and families struggling to secure safe and affordable housing. By committing funding to the project, the City Council can directly contribute to expanding the availability of affordable homes for its residents.
- Community Engagement and Design: The Briggs Ave project has demonstrated a strong commitment to community engagement. The project team actively sought input from various stakeholders, including students, community leaders, and residents, to ensure that the development meets the needs and aspirations of the community. By incorporating community feedback into the design, amenities, and priorities of the project, the Briggs Ave development can better integrate into the existing fabric of the neighborhood and enhance the overall livability and inclusiveness of the community.
- Financial Viability and Funding Sources: The proposed funding plan for the Briggs Ave project includes a mix of financing sources, including low-income housing tax credit equity, permanent debt, a deferred developer fee, and a philanthropic contribution from Durham Tech. While the total development cost has increased to over \$32.5 million due to rising construction and financing costs, the project team has actively sought opportunities to secure additional financing and mitigate these increases. The commitment of local gap funding, as requested, will be crucial in ensuring the project's financial viability and moving it forward.

- **Timely Execution:** The project team has demonstrated its readiness to execute the Briggs Ave development promptly. With funds committed by December 2024, the project aims to complete construction and make the affordable units available to residents before December 31, 2026. By committing funding to the project, the City Council can expedite the process and help address the pressing need for affordable housing in Durham within a reasonable timeframe.

Considering these issues and conducting a thorough analysis, it is evident that the Briggs Ave project aligns with the City's goals of providing affordable and inclusive housing for its residents. The project's comprehensive community engagement, targeted income range, and commitment to financial viability make it a strong candidate for receiving funding from the City Council. By investing in the Briggs Ave development, the City can take a significant step toward addressing the affordable housing crisis and improving the overall well-being of its residents.

### **Alternatives**

City Council has the option to either approve or not approve the commitment of financing for the development effort. Without the City's support, there is a possibility that the development may not move forward.

It is important to consider the time factor in addressing the pressing need for affordable housing. Approving the commitment of financing would expedite the process and allow the development to proceed without unnecessary delays. This would enable the timely provision of affordable housing units to our community members who are in need.

While alternative options may exist, they come with their own set of challenges. Seeking additional grants or funding sources, although a viable alternative, could introduce delays due to lengthy application processes and competitive selection cycles. Engaging other private developers, while a potential avenue, might require prolonged negotiations and compromises on the project's affordability goals. Similarly, relying solely on a community fundraising campaign may introduce unpredictable timelines and place a burden on community members.

Considering the urgency of the affordable housing crisis, it is important to carefully evaluate the potential risks and benefits associated with each alternative. Ultimately, the City Council's decision will have a significant impact on the availability of affordable housing for our community.

Given the time-sensitive nature of the issue, it is crucial for the City Council to carefully deliberate and make a well-informed decision that aligns with the best interests of our residents. The need for affordable housing is a pressing concern, and it is essential to act in a timely manner to address this challenge effectively.

### **Financial Impact**

The preliminary funding commitment will be conditioned on the award of low income housing tax credits. The source of funding in an amount up to \$5,987,880 is projected to come from the City's and County's American Rescue Plan Act funding. The City will have until December 2024 to obligate the funding and the development team would have until December 2026 to spend the funds.

In order to facilitate the long-term affordability of the housing units and support the financial sustainability of the project, the developer has requested a loan term with deferred interest for the 30-year affordability period. The loan term will be structured based on market rates, determined

by an appropriate interest rate benchmark for this LIHTC project. The following language is proposed to outline the loan term:

Loan Term:

The loan term shall extend for the duration of the 30-year affordability period, as stipulated by the LIHTC program guidelines.

Deferred Interest:

During the affordability period, the loan shall have deferred interest. This means that no interest payments will be required from the developer during this period. Instead, the accrued interest will be added to the outstanding loan balance, to be repaid at the end of the affordability term.

Market Rate:

The loan interest rate will be determined based on current market rates for affordable housing projects of similar nature. An appropriate interest rate benchmark, such as the prevailing interest rate for LIHTC projects in the region, will be utilized to establish the market rate for this loan.

Repayment Terms:

At the end of the 30-year affordability period, the outstanding loan balance, including the accrued interest, shall become due and payable by the developer. The repayment terms, including the amortization schedule and any necessary provisions, shall be specified in the loan agreement.

The proposed loan term language allows for a balanced approach that supports the long-term affordability goals of the project while taking into account market conditions and the financial capacity of the developer. It provides the developer with the flexibility to focus on the affordability of the housing units during the initial 30 years, with the repayment obligation structured to align with the completion of the affordability period.

The commitment of financing for the development effort has significant financial implications for the City of Durham. By participating in this project, the City has the opportunity to leverage various funding sources and contribute to the creation of affordable housing units within the community.

The financial impact can be summarized as follows:

1. **Sources and Uses of Funds:** The project's financing structure involves a combination of sources, including first mortgage debt from a bank lender, mortgage debt funded by the City of Durham and Durham County through ARPA funds, limited partner equity from LIHTC, and other contributions. The funds will be utilized for acquisition, construction costs, soft costs, developer fees, reserves, and other project-related expenses. The detailed breakdown of the sources and uses of funds is provided in the table below:

**Summary Sources and Uses of Fund**

<b>Sources of Funds</b>	<b>Amount</b>	<b>Uses of Funds</b>	<b>Amount</b>
First Mortgage Debt (Bank Lender)	\$11,500,000	Acquisition	\$1,860,000
Mortgage Debt (City of Durham)	\$5,987,880	Construction Costs	\$20,629,753

Sources of Funds	Amount	Uses of Funds	Amount
Limited Partner Equity (LIHTC)	\$13,838,333	Soft Costs	\$6,559,575
Deferred Developer's Fee	\$620,000	Developer Fees	\$2,480,000
Other-1	\$620,000	Reserves	\$559,330
		Other Soft Costs	\$477,555
<b>Total Sources</b>	<b>\$32,566,213</b>	<b>Total Uses</b>	<b>\$32,566,213</b>

2. **LIHTC Loan Structure:** The commitment of financing includes the utilization of Low-Income Housing Tax Credits (LIHTC) as a significant component. These tax credits provide an incentive to investors to provide equity for affordable housing developments. The LIHTC equity, in combination with other funding sources, helps to bridge the financing gap and supports the feasibility of the project. The LIHTC loan structure provides favorable terms and conditions, allowing for the creation of affordable housing units while ensuring financial sustainability.

The financial impact of approving the commitment of financing is two-fold. Firstly, it enables the City to allocate City/County ARPA funds strategically, addressing the pressing need for affordable housing in the community. Secondly, it allows for the leveraging of additional funding sources, such as the LIHTC program, to maximize the impact of the investment.

**Equal Business Opportunity Summary**

This is a Loan Commitment for funding that was not reviewed for compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting. If the application for LIHTC is deemed successful, then participation goals will be assessed by the Department of Equity and Inclusion for the construction activities.

**Contractor Workforce Diversity & Hiring Practices**

Due to the nature of this agenda item, obtaining Contractor Workforce Diversity & Hiring Practices information is not applicable.

**Attachments**

- Development Financing Commitment
- Building Elevations